



# prescription for a healthy merger

It is considered to be one of the most successful mega-mergers of equals in the United States to date. The 2004 union of WellPoint Health Networks and Anthem, Inc. created the largest health insurance company in the nation.

**When so many mergers fail or don't realize their expected potential, why is the WellPoint-Anthem story such a success?**

Chairman Larry Glasscock, CEO Angela Braly and members of their Executive Leadership Team share their journey to build a new company and create a culture of trust and innovation that will define it for years to come.

WELLPOINT



senn delaney

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Larry Glasscock, chairman



**In 2004, Anthem, Inc. and WellPoint Health Networks, Inc. joined forces in what is considered by many industry leaders to be one of the most successful mega-mergers of equals in the United States to date. With more than 40,000 associates and serving nearly 35 million members, the combined WellPoint Inc. is now the largest publicly traded commercial health benefits company in the U.S.**

A major merger or acquisition can have a powerful and positive impact on a company. It can deepen its capabilities, generate growth and revenue, boost market share and geographic reach, achieve economies of scale, and provide greater competitive advantage and huge cost savings. These were among the goals of this strategic \$16-billion union when Anthem CEO Larry Glasscock became CEO and president of the combined company.

He knew that much was at stake and shareholders and customers were watching closely. As with any major business decision of this magnitude, there were certain risks to be considered. Statistics show that nearly a third of mergers fail within five years and up to 80 percent don't fulfill the expectations initially established. Despite these odds, expectations for the merger were realized in a very short time frame. Glasscock, who retired in June 2007 as CEO and now serves as chairman, says the future looks very bright, even within such a challenging industry.

As it promised shareholders, WellPoint has created operational synergies and realized substantial annual cost savings. It is realizing its vision of becoming the most trusted choice for consumers and the leader in affordable, quality care. It has vastly increased its size, scale and national and regional geographic reach. WellPoint now insures 10 per cent of people in the United States through various plans, including Blue Cross or Blue

Cross-Blue Shield plans in 14 states, UniCare in all 50 states, and a variety of other health, dental and visual benefits plans. (See more results on page six.)

So, why is the WellPoint merger such a success when the majority of mergers fall short?

It is a story of leadership, teamwork and vision. The early and sustained commitment by senior leadership to building a new company and new culture began within weeks of the merger announcement and continues today.

### **Early Actions Promoted Unity and Gave Birth to a New Company**

When an acquiring company imposes its culture on the purchased company, many of the merger's objectives become harder to achieve. Culture clash can cause resistance, lack of trust and turf wars that can consume resources, dilute focus and hamper quality and service.

A seasoned executive in health care and insurance, Glasscock had overseen taking Anthem public in 2001 in the largest IPO in the history of the health insurance industry. He knew first-hand that corporate culture — the habits, values, customs and thinking that govern behaviors in every organization — deeply affects the performance of employees and the company as a whole.

Glasscock made it clear from the beginning that this was not just a merger of

equals, but the birth of a new company. The new WellPoint would draw on each legacy company's strengths and leadership to create an even stronger future. "Both organizations were very high-performing companies; they just got there in different ways. We created a new company with a whole new set of capabilities. Because of that, I felt strongly that we needed to create a new culture," he says.

### Taking Early Action Was Important

The journey to create a new WellPoint began within weeks of the merger announcement. "The reason I wanted to act very early on this had to do with the fact that your best opportunity to promote change, in my experience, is at the beginning of a merger when people are quite obviously expecting change," notes Glasscock. "Why not take advantage of this in terms of timing and momentum?"

Glasscock engaged Senn Delaney to guide him and his Executive Leadership Team (ELT) in coming together in a healthy, inclusive way.

He chose Senn Delaney because he was familiar with the firm and knew that it had extensive experience partnering with CEOs and their senior teams in culture-integration in merger situations. He also chose Senn Delaney because it had not previously worked with either Anthem or WellPoint. "I wanted to have someone who hadn't worked with either company,

someone who had a blank sheet of paper." He liked that Senn Delaney's process goes far beyond concepts. "Everything we were going to do was going to be very experiential. Everything is steeped in not just the 'what' but in the 'how'."

Glasscock discussed with Senn Delaney the rationale for the merger, and the goals and challenges it would present. Both Anthem and WellPoint had grown by acquiring other health benefit plans, but additional growth through acquisition would be difficult because of regulatory and other constraints. A combined company would have the scale and market reach to reshape the health benefits industry. It would be able to provide more value to consumers through innovative, choice-based products and offer significant service enhancements, simplified transactions and better access to information for quality care.

Building an inclusive, trusting and innovative corporate culture and gaining alignment early, starting at the top of WellPoint, would be vital to realizing this vision.

### Recognizing Differences and Similarities Lays the Foundation for Success

Senn Delaney began its culture-shaping work with Glasscock and his ELT (made up of eight Anthem and seven WellPoint leaders) by diagnosing the corporate cul-

tures of the merging companies. "Our diagnostics revealed significant differences that could have presented major challenges," explains Senn Delaney Chairman Dr. Larry Senn. "One had a mid-west culture, the other a west coast culture. One company was a bit more centralized, one more decentralized," he says. "There were also distinct differences in leadership styles."

"The analysis also revealed differences in fundamental things, such as how meetings were held and decisions were made, and it also brought to light areas where they shared similar traits and strengths," adds Senn Delaney Senior Vice President Andraea Douglass.

Within weeks of the merger being approved by regulators, and armed with results of the Senn Delaney diagnostics, Glasscock invited his newly named ELT to come together in a culture-shaping session. They spent time connecting, understanding each other's styles and working together to define the culture they wanted going forward.

"One reason we've been so successful is because we took the time at the beginning to define what we thought success would look like, and really creating a team that trusted one another and truly did come together as a team," says Glasscock. For example, it became apparent quickly that if WellPoint was to achieve its goal of becoming the most



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Improving innovation was also identified as essential to gaining a competitive edge in a dynamic, rapidly changing industry. But there was recognition that innovation, with the risk-taking it involves, can only be achieved in an environment of trust.

“In essence, we not only defined a culture, we worked very closely together on what we wanted the new strategy to be for the new company,” says Glasscock. “We came up with a new vision for the company, a new mission statement, a new set of strategic objectives, and then all of that supported by what we defined as a new set of core values. That was the evidence that we truly did create a new organization, a new company with a new future.”

### A Healthy Merger Starts at the Top

As soon as each ELT member had named his or team, the 300 top executives were brought to a similar culture-shaping ses-

son. Inviting so many executives to a session at that early point in the merger process was an unusual, forward-looking decision.

“Typically in a merger, the CEO first selects a senior team,” says Senn. “That team selects its own team, resulting in a whole host of new teams. There often is a long courting period when you bring the teams together.”

But Glasscock wanted to hit the ground running. “It was important for the leadership to understand that we were creating a new culture,” he explains. “Having Senn Delaney there and working with the group was critical.”

### A Unifying and Early Milestone

At the meeting, Glasscock emphasized the company’s commitment to maintaining the regional operating model that both legacy companies employed, with emphasis on local decision making. The regional leaders would participate in the integration process to ensure that best practices and operational synergies were

realized across all geographic markets.

Senn recalls that the session was a unifying and critical early milestone. “Glasscock’s clear communication made it unnecessary for people to fill in the blanks, decreasing the chance that executives would divide into we versus they and identify the winners and losers in the merger,” he says. “The meeting helped establish the top of the organization and ensure all the leaders were committed to making the new culture work.”

This is central to Senn Delaney’s process: While what a leader says is important, it is the leader’s actions — the ‘shadow’ that he or she casts — that makes the greatest impression on others in the organization and inspires their actions.

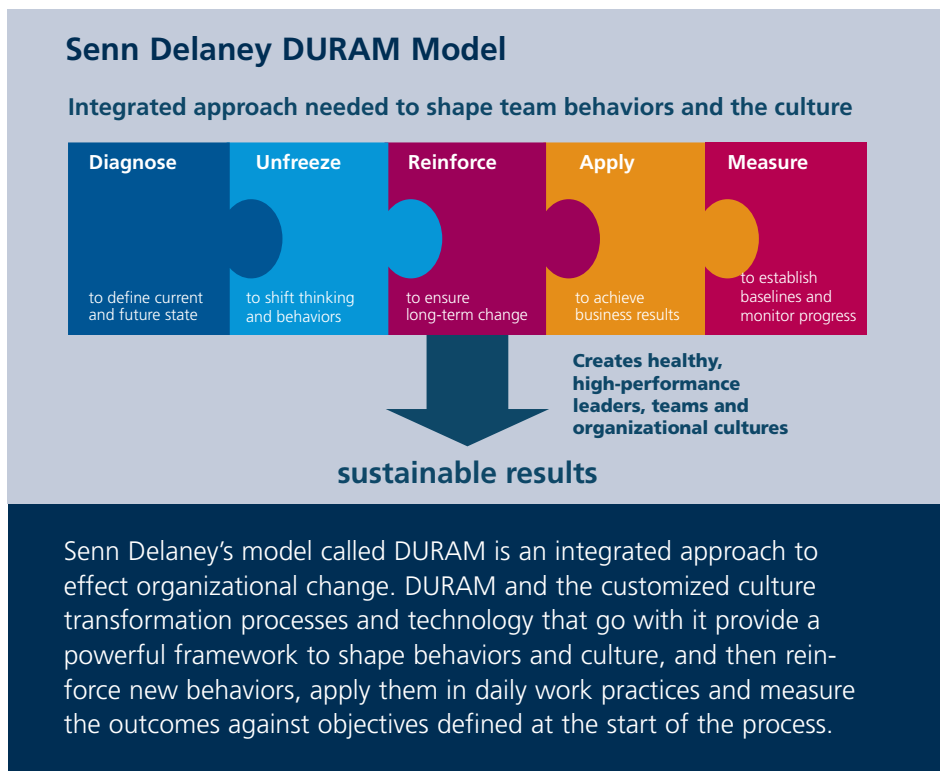
### Insight-based Experiential Process

Senn Delaney used its DURAM process (see diagram and explanation at left) to guide the cultural integration and align the new, combined WellPoint leadership away from a ‘legacy’ mindset to a ‘one company’ vision.

DURAM is an integrated, multi-stage process. It diagnoses the current culture, helps define the desired culture, unfreezes old behaviors, reinforces behaviors that promote the desired culture, applies behaviors in the business setting and measures results. The process, tailored for WellPoint, began with an offsite culture-shaping session designed to encourage a healthy, high-performance culture that fosters the key ingredients for success.

### A New Culture Begins to Take Hold

In subsequent meetings with executives, it was clear that Glasscock’s message about unity and a commitment to the greater good of WellPoint was taking root. “They were focusing on what they had to do now and in the future,” says Douglass.



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Randy Brown, executive vice president  
and chief Human Resources officer



A new culture was starting to come to life, but WellPoint wanted to ensure that it took hold and became a way of life throughout the organization. A

Workplace Culture Distinction team was created to take culture-shaping to a deeper level to ensure that the learnings, behaviors and concepts would be applied, reinforced and measured successfully across the enterprise. By the end of 2008, all 40,000+ associates will have gone through the culture-shaping process.

“When you have more than 40,000 associates, it’s everybody pulling together in the same direction that really makes an organization run,” explains Glasscock. “By rolling this out to all of our associates, it’s about being consistent in our words and deeds. They know we’re walking the talk. When we talk about the core values, we really mean them.”

### **A Three-year Plan to Embed the New Culture is Well Underway**

Because change is continuous, WellPoint is well on the path of a three-year plan to embed its core values into the very fabric of the organization, in its processes, hiring practices, new associates orientation program, and in performance management and rewards and recognitions programs.

“The principles of culture-shaping work at WellPoint because we make certain we take them to everyone. So people use the same common references, language and

concepts day in, day out,” adds Randy Brown, executive vice President and chief Human Resources officer.

“We think the culture-shaping work was critical to the early success we had in our merger. Actually committing to culture integration, and to managing it rather than just letting it happen to us, really was critical to us accepting one another with open minds. It has been transformational for our company. We are switching from using culture as a merger-integration methodology to something to give us distinction within our industry, versus our competitors.”

One of the key people working to embed the new culture at WellPoint is Lorie White, director of Workplace Culture Distinction. “Because I’m a culture shaper, something I have been doing for much of my career, I have a lot of passion about it. It doesn’t surprise me at all that the literature and the research that has been done on what makes a merger or acquisition successful or not successful often points back to culture issues. So I was very excited about getting involved in that process,” she says.

### **WellPoint Facilitators Bring Process to Life Throughout the Organization**

Approximately 80 people companywide, including White and Collette Howland, senior manager of National Quality and Performance Enhancement, have become

certified by Senn Delaney to facilitate the process that brings the culture to life in daily business practices.

“The one thing that strikes over and over again is that it is so relevant to anybody and everybody in the organization, and the degree of not just professional or business impact that it makes on individuals and on teams, but the degree to which it impacts people personally,” says White. “In my opinion, the only real change any of us makes is when we change on a personal level.”

Howland notes that it is easier to apply new insights and behaviors to some business situations than others. “In encouraging risk-taking and innovation, I tell people that an idea doesn’t have to be earth-shattering to make a difference. A suggestion that enables us to cut wait time on a call by seconds can have a big impact.”

### **A Focus on Breaking Down Silos Shifts Thinking**

Changing people’s silo behaviors is a challenge in any organization, especially early in the post-merger environment, notes Senn Delaney’s Douglass. “We focused on breaking down silos to help individuals look at themselves and say, ‘Okay, this is how I need to shift to concentrate on what is good for the company as a whole, not just for me or my department.’”

WellPoint does its best to promote trust as a key component of its business strate-

gy. However, at times, the organization also has to take actions that, if not handled with sensitivity, can diminish trust. White points to outsourcing to remain competitive as a good example.

“The point isn’t for the organization to stop outsourcing just because it may be a painful issue for some. But the way the organization manages these types of difficult situations has a huge impact on how people inside the organization trust the

outside the company? Improving trust externally is important, of course, because it affects the way customers see WellPoint, and their willingness to do business with the company.”

### Fulfilling Promises to Shareholders

“We have achieved all of the promises that we made to investors back when we did the transaction,” says Glasscock.

“We’ve achieved the synergy savings. We

n’t have been nearly as successful as a company, financially or otherwise, without addressing the culture. “I think we would have been an organization much more internally focused with rivalry and lack of trust. That would have meant that we would not have realized the benefits of putting the companies together in the first place, which are greater scale, being more attractive to our customer, to the financial community; all the benefits that have gone with it. We’re still in the midst



“I was pleasantly surprised that the levels of engagement with their work and the company measured in the first associate survey after the merger were very high.”

David Casey, vice president of Talent Management

company. When we do outsourcing, we explain why, describe the help we will provide associates in finding another position inside or outside the system, what the severance package looks like, and so on.”

Can one of the other aims of culture shaping — developing trust — be quantified in a business environment?

One of the methods of measuring trust within the organization is through WellPoint’s annual associate survey. Among the factors the survey measures are associates’ level of engagement with their work and the organization.

“I was pleasantly surprised that the levels of engagement measured in the first associate survey after the merger were very high,” says David Casey, vice president of Talent Management.

“Ultimately,” adds White, “I’d like to know as we improve trust within the company, are we also improving trust

have achieved pulling together a single corporate culture and corporate entity.”

He notes that since the merger, WellPoint has reorganized into a customer-segment basis and line of business structure as opposed to geography, another very important change that he feels was facilitated by creating a single culture for the company.

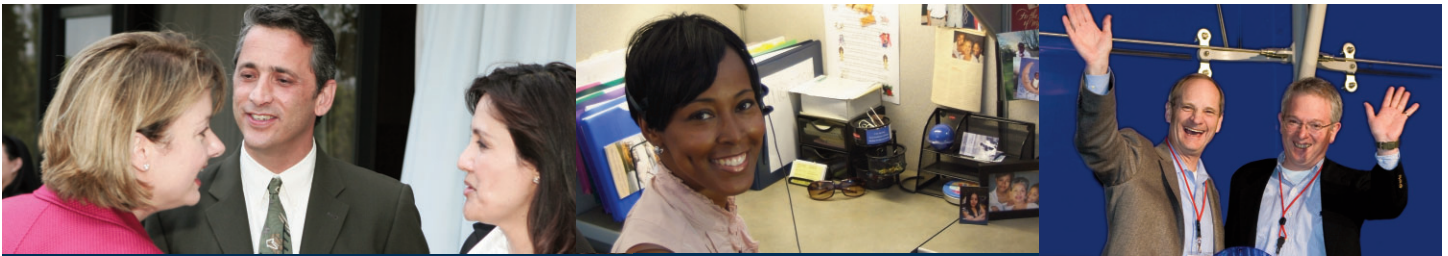
White adds, “We have tremendous buy-in across the company because we had agreed beforehand on what the core values were. We were able to move from a regional structure to a line of business structure because it was about putting the customer first and also about making decisions that were good for WellPoint in its totality. Because we did the culture-shaping work, we were able to pull off that kind of a major organizational change as well as we did.”

Glasscock believes that WellPoint would-

of it, but the impact is that we are able to introduce products more consistently, more quickly, having a strategy around the customer segment that is consistent across the enterprise. So, it’s about taking a much bigger organization and getting the benefits of its size. It’s really about putting the total WellPoint first and putting the customer first.”

WellPoint’s actions to improve innovation and enhance customer trust include the introduction of more choice-based plans, simpler transactions and better access to information.

Glasscock points to the June 2005 acquisition of Lumenos, the nation’s leading consumer-directed health plan, as an example of improved innovation and being customer-focused. “We were able to acquire some of that expertise, but more importantly, get that expertise imported throughout the enterprise by really using a lot of the concepts of Senn



## culture shaping contributes to many positive results

Larry Glasscock credits Senn Delaney's work with bringing to life WellPoint's core values and helping build a corporate culture of leadership through innovation, personal accountability, excellence and integrity, and embedding a one-company-one-team, customer-focused approach that is contributing to many positive business results:

- WellPoint has become a leader in

the important and growing market of consumer-driven health plans that put patients back at the center of their own personal health choices.

- Second quarter 2007 results show continued strong financial performance and improved operational efficiency. The new CEO, Angela Braly, projects a long-term annual earnings per share growth of 15 percent.
- Administrative expenses dropped from 17.1 percent of revenue in 2004, when the merger took place, to an expected 14.8 percent in

2007.

- Approval ratings and trust among customers are rising on several performance measures.
- Surveys show WellPoint associates remain highly engaged in the company's overall success.
- WellPoint was rated the number one health care company on *Fortune Magazine's* 2007 list of America's most admired companies, with the best ratings in seven of *Fortune's* eight key attributes of reputation.

Delaney," he notes. "So, we made some fast decisions, we focused on innovation and we got a whole new product set out to most of our market segments within about nine months."

With more than 1.2 million members now in consumer-directed products, WellPoint has become a leader in this area of its industry. Glasscock sees room for improvement: "We need to continue to focus on innovation. We need to focus on putting the customer first. That's just the notion of never accepting the status quo, but really trying to get better all the time. In my view it's always a journey, not a destination."

### A Better Place to Work

Randy Brown says that as a result of culture-shaping efforts, WellPoint has also become a more attractive place to work. "People are starting to hear that we have a different kind of culture than our com-

petitors. The culture we have created gives us an employment brand that we think can distinguish us as a different kind of health plan. And it has been a draw for us when it comes to recruitment."

WellPoint is also trying to determine if the culture work helps decrease turnover in general, specifically of high-performing and high-potential associates.

"At the end of the day, what we wanted was people who really felt engaged in the success of the company, and we wanted to create a culture where people know that we really value them, that we show that in a meaningful way and that we match our words with our deeds," says Glasscock. "We're not declaring success yet; we still have work to do. I feel good about how we're positioned for the future. I'm very proud of our leadership of the company. What I feel really good about is that we've taken the concepts of Senn Delaney and really applied them."

### It's a Journey Not an Event

WellPoint has a number of programs in place to continue cultural integration.

"We are building accountability for the cultural values into our performance coaching and feedback process as well as our succession-planning discussions and decisions," says White. "We reward and recognize people not just based on the results they achieve, but also on how they get the job done, which is really the piece that connects back to the cultural concepts and core values."

WellPoint's annual incentive plan, previously focused on local results, has also changed this year to place greater emphasis on enterprise-wide success. "Unless we change that part of our culture, we would continue to reinforce and reward people for making decisions that might not be for the greater good of WellPoint," says White.

“Our 2010 strategic plan is a living, breathing strategy that is a reflection of work that was based on our culture shaping. I think we’re in a great place.”

Angela Braly, CEO



## A Touchstone to Execute WellPoint’s 2010 Strategic Plan

Angela Braly, who succeeded Glasscock in June 2007, is a staunch supporter of culture shaping. Prior to becoming CEO, Braly was executive vice president, general counsel and chief public affairs officer for WellPoint. She was a key strategist during WellPoint’s integration with Anthem, as well as WellPoint’s acquisition of WellChoice.

Like Glasscock, Braly sees culture shaping as a dynamic, ongoing process — an essential process that is never done, especially since organizations are also continually changing. “We need to stay focused on it. If you let an organization settle down long enough, it will start to form those silos. I think it is just human nature.”

Change is continual at WellPoint as it seeks to improve the quality, transparency and cost of health care for all of its customers. In October 2007, Braly announced a customer-focused realignment of its core business around two new strategic business units, a Commercial Business Unit and a Consumer Business Unit. In addition, a new Comprehensive Health Solutions Business Unit will focus the company’s resources on optimizing health care quality and care management costs.

“Culture shaping helps us execute against our strategy in the sense that it gives us a touchstone that we can go to,” says Braly. “We can look within our culture and refer to those culture-shaping tools, such as the shadow of a leader. As a leader you have to live the principles and reflect them in your actions. The shadow of the leader is more meaningful to me now than ever before.

“Our 2010 strategic plan is a living, breathing strategy that is a reflection of work that was based on our culture shaping,” notes Braly. She adds that the work done with Senn Delaney has shifted the WellPoint culture away from being a fast follower to being an innovator. “It gives us a lot of great tools to execute against that strategy. The greatest challenge our business faces is being very focused on the customer and not becoming internally focused ... everyone being personally accountable for excellence.

“I’m very supportive of really working together, being very honest and straightforward. And the culture that we’ve developed, I think, is very conducive to that. I think we’re in a great place. We’re a great company. We will make a difference!” ■

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